

Message Text

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AMCONSUL BRISBANE UNN
AMCONSUL PERTH UNN

C O N F I D E N T I A L CANBERRA 4984

EO 11652: GDS

TAGS: EFIN, AS

SUBJ: WHITLAM ANNOUNCES FIVE PERCENT
REVALUATION OF AUSTRALIAN DOLLAR
AND RISE IN INTEREST RATES

REF: A) CANBERRA 3578

B) CANBERRA 3596

C) CANBERRA 4983

D) SYDNEY 2156

1. THIS MESSAGE CONTAINS EMBASSY COMMENT ON AUSTRALIAN
REVALUATION DESCRIBED REFTEL C.

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2. PURELY IN TERMS RECENT BALANCE OF PAYMENTS DEVELOP-

MENTS AUSTRALIAN SEPTEMBER 9 REVALUATION SOMEWHAT SURPRISING. DURING FOURTH QUARTER THE EFFECTS OF 1972 REVALUATION, FEBRUARY 1973 U.S. DOLLAR DEVALUATION AND JULY 1973 AUSTRALIAN UNILATERAL 25 PERCENT TARIFF CUT APPEARED TO BE NARROWING BOTH MERCHANDISE AND CURRENT ACCOUNT SURPLUSES. ON SEASONALLY ADJUSTED BASIS FOURTH QUARTER EXPORTS DOWN WHILE IMPORTS STILL GROWING. CURRENT ACCOUNT SURPLUS, SEASONALLY ADJUSTED, DROPPED APPROXIMATELY A\$100 MILLION FROM THIRD TO FOURTH QUARTER. EVIDENCE CONCERNING CAPITAL INFLOW MIXED WITH SOME INDICATION RESUMED INFLOW IN JULY CEASED IN AUGUST. REASONABLE PROSPECT IS THAT FULL IMPACT OF PREVIOUS MONETARY AND TARIFF MEASURES WOULD FURTHER HAVE NARROWED SURPLUSES DURING FISCAL 1974. NEVERTHELESS PRIME MINISTER'S ANNOUNCEMENT STATED "1973-1974 RESERVES AGAIN SEEMED LIKELY TO INCREASE STRONGLY FROM A LEVEL WHICH STILL REMAINED EXCESSIVE".

3. GOA MAY HAVE BEEN MOTIVATED TO MAKE FURTHER USE OF EXCHANGE RATE AND INTEREST RATE ADJUSTMENTS BY FACT THAT FISCAL 1974 BUDGET RECENTLY TABLED IS MILDLY INFLATIONARY AND THERE IS NO REALISTIC PROSPECT OF EFFECTIVE PRICE AND INCOMES POLICY IN FORESEEABLE FUTURE. GIVEN THE FACT BUDGETARY AND PRICE INCOME MEASURES NOT AVAILABLE FOR ANTI-INFLATION PROGRAM, RESORT TO MORE STRINGENT MONETARY MEASURES REPRESENTED MOST READILY AVAILABLE ANSWER TO GROWING PUBLIC DEMAND FOR VIGOROUS ANTI-INFLATION ACTION.

4. IN CONTEXT PUBLIC DEBATE DURING JUNE AND JULY (REFTELS A AND B) OVER DESIRABILITY FLOATING AUSTRALIAN DOLLAR, SEPTEMBER 9 REVALUATION HAS EFFECT OF COMPROMISE, RESTORING VALUE OF CURRENCY AGAINST OTHER MAJOR NON-U.S. CURRENCIES, WHILE RETAINING TIE TO U.S. DOLLAR. IN THIS CONNECTION, WHITLAM COMMENTED TO AMBASSADOR DURING CONVERSATION SEPTEMBER 10 THAT IN EARLIER YEARS ANY CONSIDERATION OF CHANGE IN A\$ EXCHANGE RATE WAS MAJOR POLITICAL ISSUE AND AS RESULT CHANGES VERY INFREQUENT AND AMPLITUDE CHANGE SOMETIMES LARGE. CONFIDENTIAL

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WHITLAM SUGGESTED THAT AS RESULT DECEMBER AND SEPTEMBER ADJUSTMENTS, IT WOULD PROBABLY BE FEASIBLE IN FUTURE TO MAKE RELATIVELY FREQUENT MODEST ADJUSTMENTS. EMBASSY OBSERVES THAT SUCH PRACTICE, IF ADOPTED, COULD CLOSELY RESEMBLE A MANAGED FLOAT.

5. LATEST REVALUATION SHOULD PROVIDE ADDITIONAL MARGINAL IMPETUS FOR AMERICAN EXPORTS TO AUSTRALIA,

ALTHOUGH TRADE SOURCES SUGGEST DIFFICULTIES OF SUPPLY
BEGINNING TO BE A LIMITING FACTOR ON INCREASES IN
SOME PRODUCT AREAS. SIMILARLY, CAPITAL GOODS SALES
NOT ONLY LESS PRICE SENSITIVE BUT ALSO LIKELY TO FEEL
NEGATIVE IMPACT FROM CREDIT SQUEEZE AND INVESTMENT
UNCERTAINTIES. MAIN EFFECT ON AMERICAN IMPORTS LIKELY
TO BE ON BEEF PRICE. EFFECT ON LEVEL OF BEEF SHIPMENTS
HOWEVER HARD TO PREDICT, SINCE PRESENT OUTLOOK IS FOR
SOME ADDITIONAL GOA MEASURES, IN
NEAR FUTURE TO RESTRAIN MEAT EXPORTS AND INCREASE
DOMESTIC MARKET SUPPLY.
GREEN

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